

ASX Release

FY21 AGM Addresses

11 November 2021

Charter Hall Limited
ACN 113 531 150

Charter Hall
Funds Management Limited
ABN 31 082 991 786

Level 20, No.1 Martin Place
Sydney NSW 2000
GPO Box 2704 Sydney NSW
2001

T +61 2 8651 9000
F +61 2 9221 4655

www.charterhall.com.au

Charter Hall Group 2021 Annual General Meeting

Chair's Address

Financial year 2021 saw continued challenges due to the COVID-19 pandemic. Despite some reprieve, much of the year saw disruptions for many businesses. While the pandemic itself is still far from over, your Board was impressed to see our people working closely with our customers and communities to navigate the challenges and create positive outcomes.

Against this backdrop, I am delighted to report that Charter Hall achieved record growth, ending the year with \$52.3 billion in funds under management (FUM), which now makes us the largest sector-diversified commercial property portfolio in Australia.

The resilience and success of the Group through this challenging period is not an accident. We have worked hard over many years to diversify the Group across asset classes, by equity sources and by tenant and investor customers. We've also looked to ensure our portfolios are invested in high quality assets leased to best-in-class tenants, ensuring stability of income and valuation growth through times of dislocation.

Importantly, our model is also one of partnership. Throughout the year, we continued to partner with our customers across all our sectors to meet their evolving property needs.

Our focus on stability, growth and returns for our securityholders has also driven superior performance across our funds and continues to attract investor equity, with \$5.3 billion of gross equity flows for the FY21 year.

Our current portfolio now comprises 1,413 properties, with a lettable area of 9.5 million square metres and delivering over \$2.5 billion in net rental income per year.

We have always said that long-term performance is the true test of success. As we celebrate Charter Hall's 30th anniversary, our current result is further evidence of our ability to consistently deliver superior returns to our securityholders. Since listing in 2005, Charter Hall Group has delivered securityholders an 18.2% compound annual return. Over 10 years, that's been a 28.2% compound annual return, over 5 years a 30.3% compound annual return and over three years a 37.9% compound annual return and for FY21 was a total securityholder return of 64.1%.

As demonstrated by the consistency of returns since listing, this performance is not a one-off. While there have been significant tailwinds for the real estate sector and funds management industry, these results are significantly better than most peers, all of whom had the same tailwinds and benefits. Instead, Charter Hall's performance is the result of talented cohesive leadership and adept strategic implementation.

Good businesses show their worth in difficult times and this was the case with Charter Hall, with three upgrades of earnings during the year and delivery of operating earnings of 61 cents per share, which was 19.6% higher than original guidance for the year of 51 cents per share.

Charter Hall has grown considerably over the course of three decades, both in size and complexity. We now partner with some of Australia's biggest corporates, with many of our engagements having evolved into multi-level and cross-sector relationships, driven largely by the trust developed over the course of our partnerships.

Our future success relies on the continued strength of our customer relationships, as well as our ability to harness the talent within our business to continue delivering outstanding results for our customers, partners and investors.

Charter Hall is a dynamic organisation which harnesses Culture, Capability and Care into its employment proposition. Our culture universally has the customer, both investor and tenant, at the heart of our business. My own enquires and board surveys record that. Capability shows in the results and strategic positioning over the last 10 years. Care involves the embracing of our people in a very competitive market for talent.

We recognise that the breadth and depth of our leadership team serves as the basis to take the Group to the next level. As Charter Hall has grown and enjoyed significant success, our people have increasingly been sought out by others, keen to emulate our success. We respond with a focus on a successful culture and respect for our people, but we also need to respond with remuneration.

As we look to the future, the Board is keen to retain the executives and leadership team that have delivered this growth to securityholders. That's why, this year, we made it a priority to reset our remuneration structure, introducing a retention and outperformance plan for our leadership team. Your Board acknowledges that there are clearly a range of views on this important topic of remuneration. Importantly, the plan we put in place balances retention of key executives with delivery of ongoing outperformance.

The Plan was the result of consultation with investors where earlier this calendar year we sounded out a small group of our securityholders with the outline of a retention and outperformance plan. There was unanimous agreement that retaining our key people was paramount to the continued success of the business and such a plan was supported.

Resolution 6 outlines the conditions of that plan through the award to the CEO and MD. The award is proposed to cover 27 other employees as well. The vesting conditions are acknowledged as being challenging and the term, seven years, is considered appropriately long.

From the feedback we have received from investors, the issue is the quantum. The directors have considered this very carefully on behalf of the security holders they represent and using our experience and assessment of alignment, we have recommended the quantum proposed. Regardless of the outcome, please be assured we understand there is a wide divergence of opinion on this matter.

Concluding on the matter of remuneration, I would ask those who see our proposed remuneration levels as too high to look at the returns they and their clients have received over a long period of time and appreciate that these come from a rare combination of experience, insight and talent. The levels of remuneration will only be paid if performance continues to be strong. Our goal is to keep our talent together in the service of securityholders in the years ahead where change in the world could make conditions challenging – just the time when you need experienced people to make crucial judgements.

Each year, we go further in our commitment to our ESG objectives. In the wake of updated projections released by the International Panel on Climate Change, delivering on our climate initiatives has never been more important. We continue to make significant progress each year and believe that by partnering with our tenants and investors, we can unlock further opportunities to drive meaningful change and secure a better future for all.

We have actively aligned our climate resilience roadmap to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) to ensure meaningful steps from Board level to meet our objectives.

Pleasingly, we have made significant progress towards our Pathway to Net Zero by 2030 target, even accelerating that timeline where possible. Our Industrial & Logistics portfolio has committed to

achieving Net Zero Carbon in operations by 2022 for Scope 1 and Scope 2 related emissions and our Retail portfolio recently announced that it will achieve Net Zero Carbon in operations by 2025.

We have also begun proactively working with contractors and suppliers to reduce impacts across our supply chain and engaged with our tenant customers to find solutions to mitigate their energy-related emissions. Currently, 54% of the 41MW of our installed solar supplies directly to our tenants.

As businesses around the country continue to plan their return to office, supporting healthier workplace assets is as important as ever. We have worked with the International WELL Building Institute to baseline human health and wellness, with a focus on measuring and improving the indoor environment in our workplace assets for our tenants. This year, we became one of the first groups globally to achieve a WELL Portfolio Score across 900,000 square metres of real estate.

As a signatory to the United Nations Global Compact, we continue to engage to advance the Sustainable Development Goals and embed its principles in our strategy and culture. We were proud this year to be recognised in the 2020 Principles of Responsible Investment Leaders Group for our work in climate reporting.

In line with our philosophy of mutual success, Charter Hall's plans also include building future success for our partners. We firmly believe that by investing in the value of place, we are creating better outcomes for the long term.

Our commitment to social investment in communities is driven largely through Pledge 1%. Through this philanthropic movement, Charter Hall has been investing in more than 100 charitable organisations to support communities in need.

We donated \$739,000 through our community partnerships, and, in a year where volunteering was impacted by COVID-19, our people spent 1,200 hours in the community. We also donated over 41,000 square metres in space, valued at over \$1.8 million, for community use.

We are passionate about building better futures for vulnerable youth within the community. We have established partnerships with four state-based social enterprises targeting 1,200 meaningful employment opportunities by 2030. Again, this is about taking actions that tackle employment impacts linked to COVID-19.

For the first time, we used our supply chain to create social value, contracting with Two Good Co. to supply our Office portfolio with soap. In turn, this creates employment outcomes for survivors of domestic violence and supplies meals and care packages to women in shelters across Australia.

We now require all employees to complete training on modern slavery on an annual basis in line with our obligations under the Modern Slavery Act. Our Modern Slavery and Human Rights Working Group monitors our modern slavery and human rights risk across our business and supply chain.

We have also developed a Stage 1, Reflect Reconciliation Action Plan (RAP), which has been conditionally endorsed by Reconciliation Australia.

Your Board is actively engaged in the business to ensure the continued execution of the Group strategy. We remain focused on providing clear governance and oversight to assist management in continuing to deliver for our stakeholders. We have always understood that embedding a high standard of ethics into our business, creating trust in the institution and the people who manage your wealth, is paramount. Our role as a Board is to serve you to maintain and build trust.

While our results demonstrate our performance focus, front and centre for us is our role as guardians of other people's capital over the long term. That's why our purpose, developed with input from investors, tenants and employees, is about achieving better futures and mutual success through bringing aspirations to life.

30 years on from when Charter Hall began, we are very proud of where we are as a company and we continue to have ambitious goals for the future.

I would like to take this opportunity to thank tenants, investors and securityholders for your support, my fellow Directors and the Executive Committee for your dedication and our people for their passion and commitment in delivering this year's record performance.

It is now my pleasure to introduce the Managing Director and Group CEO, David Harrison, for his operational update.

Managing Director and Group CEO's Address

Thank you David.

Financial year 2021 (FY21) continued to challenge global economies and businesses, with the COVID-19 pandemic persisting as we closed out the year. Despite these challenges, Charter Hall generated record fund growth and equity inflows across the business. This was possible due to the support from our capital partners to have the courage to exploit this dislocation and invest to deliver growth for those investors.

We continued to drive market leading transaction volumes and outperform respective benchmarks across most of our funds and partnerships. At the same time, we maintained a razor-sharp focus on our customers, as evidenced by continued leasing and pre-leasing of developments, results from our customer surveys and a leading volume of sale and leaseback transactions with corporate customers- new and existing.

Overall, FUM grew by \$11.7 billion or 29% for the year, deploying capital for our investors and generating FUM and earnings growth for securityholders.

This year, we celebrated an important milestone – 30 years since the founding of Charter Hall and our 16th financial year as a publicly listed Group. It was an incredible opportunity to connect with our people (past and present), tenant customers, partners and investors to reflect on the relationships that we've built, the impact that we've had, and to show our gratitude to everyone who has played a role in our success. Our growth over 30 years has been built on a foundation of partnership and mutual success. That continues to drive us today.

Since our ASX listing in 2005, we have grown from \$1 billion in FUM to more than \$54 billion. In FY21 alone, we generated record gross equity flows of \$5.3 billion, achieved \$11.7 billion of FUM growth and delivered a 12-month total return for the Group's securityholders of 64.1%.

It's important to reflect on where we came from, but I am most encouraged by where we are going. Our focus remains on delivering sustainable growth for securityholders and replenishing capital within funds and partnerships as we continue to deploy capital through develop-to-core strategies and selective acquisitions. With a curated portfolio of 1,413 high quality assets, we will continue to make enhancements through asset diversification and Long WALE and we continue to pick strategies and sectors that will outperform the return benchmarks expected by our investors.

We remain well diversified by equity source, investor customers, tenant customers and by sub-sectors within property markets.

The PFM platform comprises 1,413 properties and generates more than \$2.5 billion of net rental income annually, rising with the considerable pre-leased development WIP in Logistics and office, whilst deployment capacity across the Group has never been greater.

The thematics we have espoused for a decade combining a long WALE strategy with a focus on high quality tenant customers in industries that are resilient, continues to pay dividends in terms of occupancy, rental growth and asset value growth.

The capacity to secure long leases with attractive contracted rental increases, continues to screen Australian property markets as very attractive to both domestic and global investors, in a lower for longer interest rate environment.

We have deliberately grown our exposure to this long WALE thematic, which is further evidenced by the \$17.2 billion, 10.6 year WALE Industrial and Logistics portfolio and our sector leading 6.5 year

WALE Office portfolio, with one of the youngest average building age profile of the major office portfolios in Australia.

The record level of leasing volume across our Office portfolio and continued cap rate compression evidenced by investment sales during 2021, provides us further conviction about the pre-eminent position Office will play in most diversified portfolios. Modern workplaces will continue to play a critical role for the majority of businesses and the economy and we have invested heavily in our people and technology to provide the most contemporary workplace solutions for our tenant customers.

The weighted average cap rate across the \$55 billion platform is currently 4.76%, reflecting the quality of our core portfolio. We expect to see continued cap rate compression for good quality long WALE assets across all sectors, but in particular, we see logistics and the Long WALE triple net lease (NNN) portfolios as likely to see the most downward pressure on cap rates, as continued investment demand for these assets will support valuation growth. However, I would also point out that the high valuation cap rates (relative to all other sectors) of our convenience shopping centre assets are unlikely to be sustained and hence we expect valuation growth to surprise on the upside, as the volume of sales evidence yields well below book value cap rates drives down valuation cap rates.

Our diversity of equity sources continues to be well balanced with 63.5% of FUM from unlisted Wholesale equity, 20% from our 3 listed REITs and 16.5% from our unlisted Direct business that has now delivered \$1 billion of inflows per annum for 3 years in a row.

Pleasingly, all segments of our equity sources continue to grow at similar growth rates which have been very consistent over many years, growing our scale and depth of investor relationships. We continue to replenish capacity to fund our growing \$9 billion development pipeline, half of which is pre-committed and under construction.

In addition to our sector-leading WALEs, our resilience strategy is delivered via sector diversity, tenant industry diversity and geographic dispersion in our preferred markets.

Lastly, our focus on a high proportion of government and tenant customers operating in essential industries, provides security of income from our property portfolios.

FY21 was a record year for FUM growth with FUM growing \$11.7 billion, or 29% to \$52.3 billion. FUM grew through a combination of significant transaction activity, positive revaluations and capex in our development pipeline.

Our development pipeline continues to increase the volume of annual completions, escalating volume of pre-committed developments, whilst site acquisitions continue to expand the un-committed pipeline.

The developments improve the returns within our funds by delivering enhanced yields and margins above cost compared to on-completion independent valuations. Most importantly, many of our pre-leased developments are creating modern office and industrial assets that simply are seldom available for acquisition.

FY22 has maintained the strong momentum of growth in FUM. FUM has grown by \$3 billion to \$55.3 billion in the first 4 months of the year and there is good visibility to further potential growth with the proposed acquisition of the ALE Property Group, scheduled for unitholder vote next month, via Board recommended Scheme.

The current Australian commercial real estate sector continues to offer an attractive relative investment return, as evidenced by the broad spread of domestic and offshore demand for property. We remain confident that FY22 will be another year of funds under management growth, mainly driven by pre-leased industrial and office developments, complemented by selective acquisitions and net valuation growth, already evidenced by the approx. 10% growth over 4 months in the \$3.5 billion of Industrial assets revalued at 31 October.

Strong equity flows saw us active in deploying equity into developments, acquisitions and sale and leaseback transactions during FY21 and this has continued again into FY22. Notwithstanding the

challenges presented by COVID-19, we were active across all our sectors and were quick to seize on opportunities that presented themselves.

Sale and Leaseback transactions continues to drive much of our activity, as we look to actively partner with our tenant customers to create mutually beneficial outcomes.

Examples during FY21 included the expansion of the BP partnership into New Zealand, the \$280 million Telstra telco exchange on Pitt St in Sydney CBD, multiple Bunnings transactions and the acquisition of the David Jones flagship Sydney CBD store on a 20 year NNN lease.

Repeat customer transactions are a healthy sign of delivering on our customer centric objectives, many of which reflect our capacity to deal with customers in multiple sectors.

Turning to equity flows, FY21 was a record year for equity flows across our business, marked by successful equity raisings from each capital source. Our strategy of accessing multiple sources of capital continues to deliver growth in all segments.

Our pooled funds continue to generate strong investor interest, with CPIF having secured \$2.6 billion of equity commitments in 2020 expected to be fully drawn and allotted by early next year. We have also launched an equity raising for our flagship wholesale office fund CPOF, expected to complete its first close prior to Christmas.

Our Wholesale Partnerships were also very active during FY21, with a newly created partnership with global sovereign wealth fund GIC that secured the Ampol portfolio; LWHP investing into a \$353 million portfolio of Bunnings centres; Dutch pension fund PGGM establishing a new logistics partnership, and Canadian pension fund investor QuadReal partnering a second time with Charter Hall in a future development at North Quay in Brisbane.

As I previously mentioned, our Direct business also continues to enjoy strong support from investors, and is heading toward \$10 billion in FUM as its office, Industrial and diversified open funds provide a diverse range of investors access to institutional quality portfolios with long WALEs and growing income distributions.

In summary, we continue to enjoy the support of capital partners given our ability to successfully deploy capital in attractive acquisition and development opportunities, investing alongside them to evidencing strong alignment of interests and generating healthy returns for both partners and CHC securityholders.

That concludes my review of FY21 and our progress year-to-date in FY22.

I'd now like to re-affirm our Earnings Outlook statement for FY22.

On 1 November 2022, the Group upgraded post tax operating earnings per security (OEPS) to no less than 83 cents per security for FY22.

This earnings guidance does not include any forecast transactional activity yet to become unconditional and is based upon no material adverse change in current market conditions.

FY22 distribution per security guidance remains unchanged and is for 6% growth over FY21 distributions per security.

In closing, I would like to thank our people based around Australia for their continued hard work and dedication towards achieving these results. And on behalf of our senior executive management team, I thank you, our securityholders, for your continued trust in us.

I will now hand back to our Chair, David Clarke to conduct the formal business of the meeting.

Announcement Authorised by the Board

Charter Hall Group (ASX: [CHC](#))

With over 30 years' experience in property investment and funds management, we're one of Australia's leading fully integrated property groups. We use our property expertise to access, deploy, manage and invest equity across our core sectors – Office, Industrial & Logistics, Retail and Social Infrastructure.

Operating with prudence, we've curated a diverse \$55.3 billion portfolio of 1,413 high quality, long leased properties. With partnership at the heart of our approach, we're creating places that help grow communities; turning them into the best they can be and unlocking hidden value. Taking a long-term view, our \$9 billion development pipeline delivers sustainable, technologically enabled projects for our customers.

The impacts of what we do are far-reaching. From helping businesses succeed by supporting their evolving workplace needs, to providing investors with superior returns for a better retirement, we're powered by the drive to go further.

For further enquiries, please contact
David Harrison
Managing Director and Group CEO
Charter Hall
T +61 2 8651 9142
david.harrison@charterhall.com.au

For investor enquiries, please contact
Philip Cheetham
Head of Listed Investor Relations
Charter Hall
T +61 403 839 155
philip.cheetham@charterhall.com.au

For media enquiries, please contact
Megan Moore
Communications and Media Manager
Charter Hall
T + 61 434 225 643
megan.moore@charterhall.com.au
